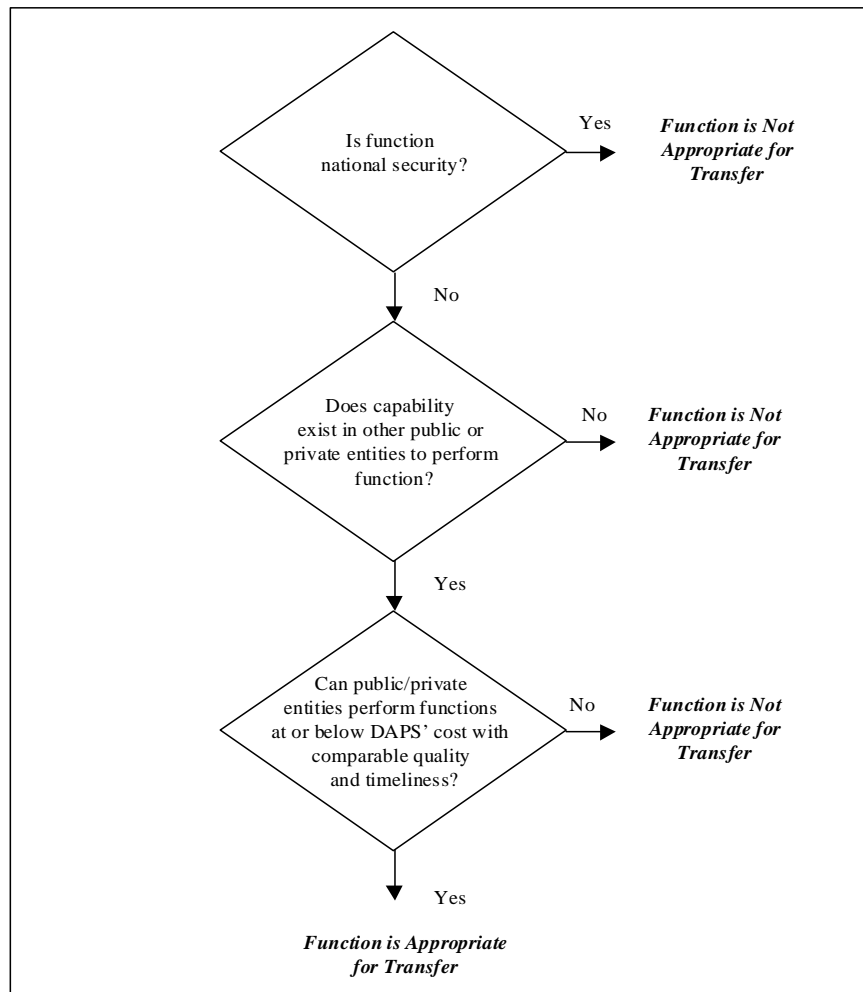


## SECTION 5: ANALYSIS

In this section of the report, KPMG will discuss each of the criteria developed for determining whether DAPS functions are appropriate for transfer to a commercial or other governmental entity. Exhibit 5-1 depicts the criteria in the flowchart process that was used to assess DAPS functions.

*Exhibit 5-1, Flowchart for Assessing Which DAPS Functions are Appropriate for Transfer*



This section will first discuss which DAPS functions, if any, meet the criteria for national security as defined in the task Statement of Work. Next, KPMG will provide an assessment of whether the capability exists in the public or private sector to perform DAPS functions. Finally, for those functions that were determined not to be national security and capable of being performed by public or private entities, KPMG will provide the results of a survey of public and private entities which assessed whether the entities could perform DAPS functions at or below DAPS costs with comparable quality and timeliness.

## **Functional Categorization**

Section 350 of the Defense Authorization Act for FY99 requires that this review address:

“The functions of the Defense Automated Printing Service that are inherently national security functions and, as such, need to be performed within the Department of Defense.”

Further clarification of a national security function is provided in the Statement of Work (SOW) where a national security function is defined as:

“a function involving highly sensitive national security, intelligence, or investigative work that ensures a ready and Government controlled source of technical competence in operations necessary to the effectiveness of military combat and other more specialized operations.”

In assessing DAPS functions, the key characteristic in determining the categorization of DAPS functions is whether the function must be “performed within the Department of Defense” or whether the function “ensures a ready and Government controlled source of technical competence.” KPMG has interpreted these statements to mean that national security functions require that a Government employee perform the function.

Within nearly all of the identified DAPS functions, a small percentage of jobs require that DAPS personnel handle “sensitive” documents. Examples of the sensitive documents handled by DAPS include classified material (up to Top Secret but primarily Confidential and Secret), testing materials, training materials, source selection sensitive procurement documents, leave and earnings statements, and other non-classified but understandably sensitive material. During interviews with DAPS personnel and during discussions at site visits to DAPS locations, no customer requirements were identified to be of such high sensitivity as to preclude a properly cleared contractor in approved facilities from performing the work. In fact, in several situations currently within DAPS, cleared (through various security levels) contractors are currently performing work for DAPS.

DAPS has also cited its role in contingency support as a potential national security function. In this role, DAPS supports the Air Force by providing training and deployment support for deployable copier equipment. DAPS responsibilities in this role include keeping Air Force owned equipment in operational condition, including, providing supplies and spare parts and as-needed maintenance, packing and preparing the equipment for shipment during deployments, and providing Air Force personnel with training on use and maintenance of the equipment. During interviews with DAPS personnel, there was no requirement identified which they believed would preclude a contractor from performing any given task.

Based on the requirement levied in Section 350 of the Defense Authorization Act for FY99, the definition of national security provided in the task Statement of Work, and through interviews with DAPS personnel and DAPS customers, and site visits to DAPS locations performed

during the course of this effort, KPMG concludes that there are no functions performed by DAPS which constitute national security functions and which must be performed by a “government controlled source.”

## **Industry Capabilities**

The second step in the decision process to be considered in identifying functions appropriate for transfer is whether the capabilities exist in other public or private entities to perform DAPS-like functions. KPMG accomplished this assessment through industry and public entity site visits and surveys. KPMG’s visits with industry focused on large national companies in the printing business.

During site visits, KPMG found that industry performs the vast majority of DAPS like functions as identified in Section 4 of this report. In fact KPMG observed capabilities in industry that met and often exceeded those of the DAPS organization. These capabilities will be briefly discussed below and will be discussed in detail in the Best Practices section of the report.

KPMG observed large centralized production plants operating 24 hours per day, 7 days a week. One production plant visited contained five Xerox Docutech printers each claimed to be outputting in excess of 2 million impressions per month per machine. These production plants often serviced clients with on-site virtual print shops or drop boxes. Several of these virtual print shops were staffed by a customer service representative who may have a computer with a scanner connected to the main production plant. This allowed the on-site representative to process the job and queue the job at the off-site plant for overnight production and next day delivery. This allowed for better utilization of expensive printing equipment and labor.

Well-established national network infrastructures allow organizations to easily channel work to less utilized production plants in order to meet stringent customer turnaround requirements. In some cases this level of connectivity enabled production plants to receive up to 80% of work electronically from customers. The location of the production plant in these cases was transparent to the customer.

Most organizations had a division within the company that specialized in information technology and automation. One organization augmented their automation expertise through the acquisition of a technology company. These information technology divisions pooled resources and expertise in order to meet customer automation requirements. Many companies also had accounting systems capable of collecting and identifying unit cost. These accounting systems provide organizations with vast amounts of reliable data on which to base management decisions.

One subfunction not found in commercial industry is within the Miscellaneous Processes / Projects function where DAPS prints specialized six foot target paper for the military services. This is a unique requirement that requires unique equipment. KPMG was told by DAPS personnel that only one of these presses is known to exist in the world. This is not to say that

contractors using Government Furnished Equipment (GFE) could not accomplish this specialized process, but it would be difficult to predict the cost to DoD for this type of process in the commercial sector given the uniqueness of the equipment and the relatively low volume of work.

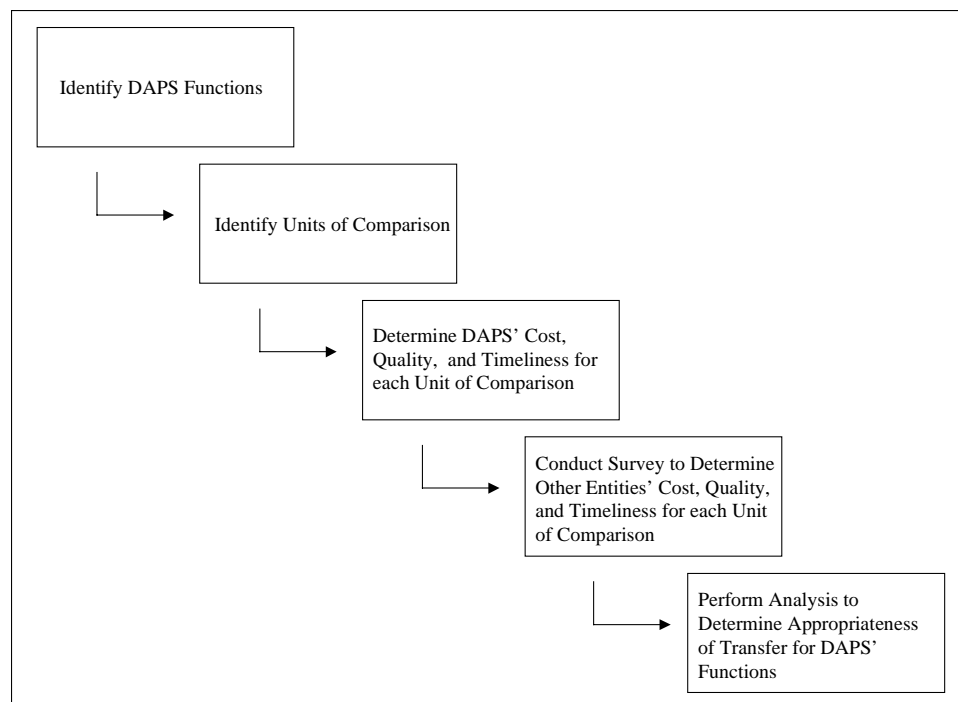
### **Synopsis of Functional Categorization and Industry Capability Assessment**

KPMG found no functions performed by DAPS that fall under the definition of national security functions provided in the legislation or Statement of Work. In addition, based on interviews and site visits with commercial and governmental entities and the industry / public entity survey, KPMG believes that the capability to perform DAPS functions exists outside of DAPS. With these two questions answered, the primary issue to be addressed when assessing whether DAPS functions are appropriate for transfer is whether commercial or governmental entities can perform DAPS functions at or below DAPS costs with comparable quality and timeliness.

### **Process for Comparing DAPS with Other Public and Private Entities**

In order to compare DAPS with other printing entities, KPMG developed a process for identifying the factors to be used in the comparison and gathering data from DAPS and other public and private entities to support the comparison. This process, shown in Exhibit 5-2, lays the foundation for an evaluation of DAPS performance of its identified functions against other entities on the basis of cost, quality, and timeliness.

*Exhibit 5-2, Process for Evaluating DAPS against other Public and Private Entities*



Each step in the process is described in the following sections (without the unit cost results). The unit cost results are provided separately by function following the process explanation and in Appendix G.

### **DAPS Functions and Units of Comparison**

DAPS functions, which directly correlate to DAPS seven primary departments, were previously identified in Section 4. The units of comparison were identified within each function based on their amount of revenue within each DAPS function and confirmed with industry during the consultative interview phase of this task. The units of comparison were intended to serve as a baseline for comparison of DAPS with other public and private entities. These units of comparison are provided in Exhibit 5-3.

*Exhibit 5-3, DAPS Functions and Units of Comparison*

<b>Electronic Output</b>	<b>Document Automation</b>
Small Volume Printing	Desktop Publishing
Large Volume Printing (includes mainframe)	Conversion of Hard Copy to Electronic Print-Ready
Leave and Earnings Statement Production	Conversion of Mainframe Output to Electronic Print-Ready
	Web Page Publishing
	First Unit CD-ROM
	CD-ROM Reproduction
<b>Offset Duplicating/Printing</b>	<b>Miscellaneous Processes / Projects</b>
Offset Duplicating/Printing	Addressing/Mailing/Delivery Services
<b>Reproduction</b>	<b>Microfiche</b>
Engineering Drawings	Computer Output Microform Production
Color Copies	Duplicate 105mm Microfiche
<b>Outsourcing</b>	
N/A	

### **DAPS Timeliness, Quality, and Cost**

Using these units of comparison, KPMG next performed an assessment of DAPS performance of the identified units of comparison based on cost, quality, and timeliness factors.

**Timeliness.** Based on discussions with DAPS personnel and the results of the DAPS customer survey, KPMG determined that the typical timeliness requirement for DAPS in-house work ranges from one to four days for most tasks. KPMG used these timeliness requirements in the industry / public entity survey (discussed later in this section) to gather data for comparison with DAPS.

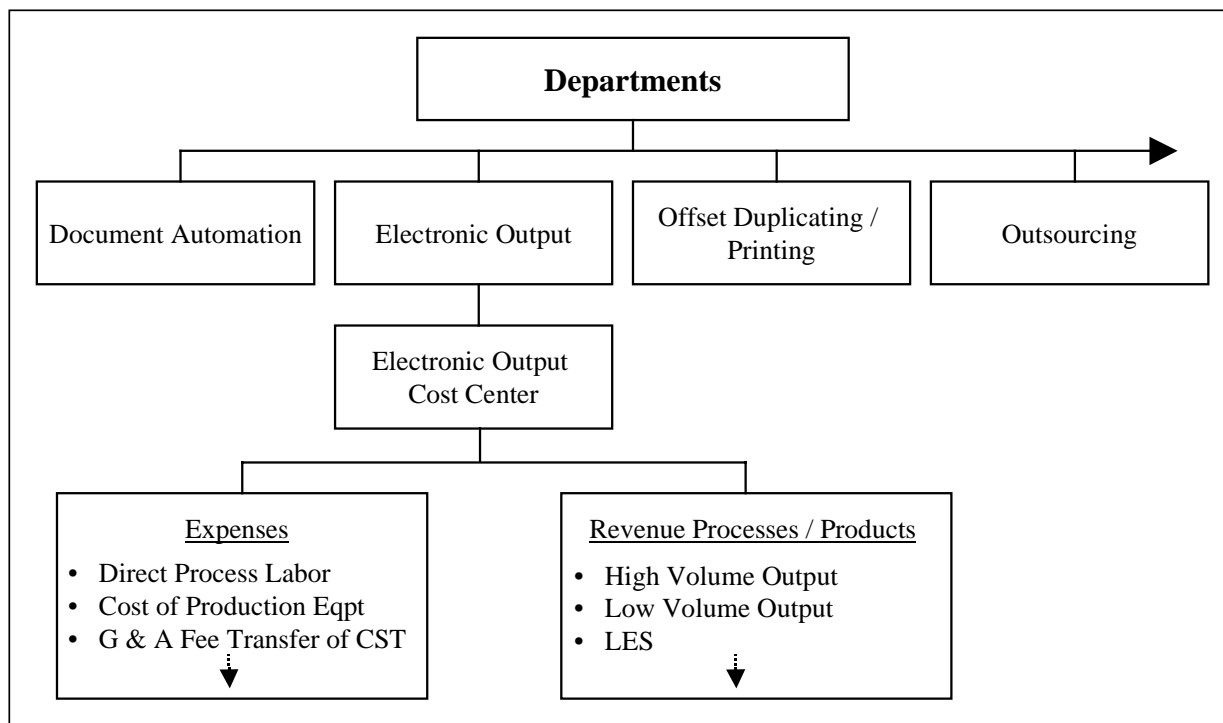
**Quality.** During site visits to commercial entities, KPMG observed that some of the entities have instituted quality management processes at their respective organizations. For these organizations, metrics played a key role in the management of their operations. During

one industry site visit, KPMG observed that the organization had flow-charted its production processes and intentionally inserted quality checkpoints within the processes. While DAPS does collect limited metrics within its organization, DAPS decentralized management structure does not currently support the implementation of standard quality practices organization-wide. However, based on discussions with DAPS representatives, DAPS customers, the Government Printing Office (GPO), and industry representatives, and the types of production equipment used by DAPS, KPMG concluded that DAPS product quality is comparable with other entities performing similar work.

**DAPS Unit Costs.** The determination of DAPS unit costs is necessary in establishing a cost baseline to support a comparison between DAPS costs and other entities' prices within each identified unit of comparison.

The DAPS accounting system does not support the determination of a precise unit cost for any of the units of comparison selected to assess DAPS functions. This is due to the way DAPS captures costs and revenue. As described earlier in this report, the DAPS accounting system consists of seven primary departments which are subdivided into cost centers. Within each cost center, revenue process categories capture the revenues associated with each product and expense categories capture all expenses within the cost center. Exhibit 5-4 depicts the structure of DAPS accounting system.

*Exhibit 5-4, Depiction of DAPS Accounting Structure*



Since expenses are aggregated at the cost center, and not at the revenue process level, unit costs for each unit of comparison cannot be precisely determined. To accommodate this,

KPMG developed methods for determining a unit cost range for each unit of comparison. These methods will be discussed in subsequent sections of the report.

### **Industry / Public Entity Data Gathering Survey**

To gather the data necessary to support a comparison with DAPS, KPMG developed a survey to be completed by the Government and commercial printing entities. The survey was concentrated on large, national companies whose primary focus was electronic output. The survey, provided in its entirety in Appendix F, was broken into two sections. The first section requested entity-specific information, such as revenues and number of employees, and the entity's perspective on their competitive environment. The responses provided by the survey participants for the first section of the survey are displayed in Exhibit 5-5.

Since KPMG follows the International Benchmarking Clearinghouse Code of Conduct, individual company names are not associated with their data. KPMG takes its responsibility of confidentiality very seriously, therefore, survey participants will be identified as Company A, Company B, etc.

*Exhibit 5-5, Survey Participants Overview*

	DAPS	GPO	Company A	Company B	Company C	Company D	Company E	Company F	Company G
# of Employees	1,820	3,360	42,600	25,000	13,000	100,000	3,000	177	26,000
# of Employees Performing DAPS-like Services	1,820	2,860	19,300	250	11,700	16,500	500	177	3,000
Annual Revenue	\$378 million	\$830 million	\$5.9 billion	\$1.5 billion	\$4.1 billion	\$18 billion	\$280 million	\$6.6 million	\$5.0 billion
Annual Revenue for DAPS-like Services	\$378 million	\$658 million	\$501 million	\$15 million	\$40 million	\$2.9 billion	\$60 million	\$6.6 million	\$800 million
Annual Revenue Growth Rate for DAPS-like Services	(3.6%)	5 - 10% (projected)	9.8%	178%	15%	32%	No Response	No Response	8 - 10%
# of Plants/Operating Locations	310	26	129	950	20	4,000	450	3	162

The second section of the survey requested unit price information for specified products to be used in assessing DAPS performance of its functions from a cost-to-the-Government perspective. The products / services were chosen to assess DAPS functions since they represented either a selected unit of comparison or a subset of a unit of comparison. As stated earlier, turnaround requirements were determined by discussions with DAPS personnel and DAPS customers. The average job sizes were determined by analyzing a database provided by DAPS that included roughly 280,000 jobs completed by DAPS during FY98. The units per year were determined from DAPS year-end Financial Management Summary. These products / services are depicted in Exhibit 5-6.

***Exhibit 5-6, Products / Services and Attributes from Industry / Public Entity Survey***

<b>Product / Service</b>	<b>Unit</b>	<b>Turnaround Time</b>	<b>Average Job (in Units)</b>	<b>Units per Year</b>
<b>Document Automation</b>				
Desktop Publishing	Page	2-4 day	N/A	10,000 - 15,000
Conversion of hard copy to electronic print-ready	Page	2-4 day	15,000	6,500,000
Conversion of electronic files to electronic print-ready	Page	2-4 day	240,000	11,000,000
Web Page Development	Labor Hour	2-4 day	N/A	250 - 500
First unit CD-ROM from electronic file	CD-ROM	2-4 day	N/A	2,000 - 2,500
CD-ROM Reproduction	CD-ROM	2-4 day	50 - 75	65,000 - 70,000
<b>Electronic Output</b>				
Small volume printing	Page	1 day	4,000 - 9,000	1,000,000,000
Small volume printing	Page	2-4 day	4,000 - 9,000	1,000,000,000
Large volume printing (from disk or hard copy)	Page	1 day	50,000 - 250,000	N/A
Large volume printing (from disk or hard copy)	Page	2-4 day	50,000 - 250,000	N/A
Large volume printing (from mainframe)	Page	1 day	50,000 - 250,000	N/A
Large volume printing (from mainframe)	Page	2-4 day	50,000 - 250,000	N/A
Leave and Earning Statement (pay stub)	2 sided page	1 day	50,000 - 250,000	30,000,000
<b>Offset Duplicating / Printing</b>				
Offset duplicating / printing (including makeready)	Page	2-4 day	4,000 - 8,000	60,000,000
<b>Reproduction</b>				
Black & white engineering drawings	Square Foot	2-4 day	1,500	25,000,000
Color copies	Page	2-4 day	200 - 700	13,000,000
<b>Microfiche</b>				
Computer Output Microform production	Fiche	2-4 day	N/A	1,750,000
Duplicate 105mm microfiche	Fiche	2-4 day	N/A	14,000,000
<b>Outsourcing</b>				
Outsourced printing management	Not applicable	N/A	Not applicable	Not applicable
Copier / multifunctional device contract management	Not applicable	N/A	Not applicable	Not applicable
<b>Miscellaneous Processes and Projects</b>				
Addressing, mailing, and delivering	Labor Hour	1 day	N/A	75,000
* N/A - This information is not available				

Of the 12 entities (11 commercial and 1 Government) selected to participate in the survey, KPMG received responses from eight. A discussion of the responses to the “units of comparison” portion of the survey are provided later in this section.

### **Analysis to Determine Appropriateness for Transfer**

The analysis used to determine whether DAPS functions are appropriate for transfer was based on interviews with DAPS, GPO, and industry representatives and the results of the industry / public entity survey and focused on assessing whether other entities could perform DAPS functions at or below DAPS cost with comparable quality and timeliness. The analysis also assessed the impact to DoD of transferring individual DAPS functions out of DoD while continuing to perform the remaining functions in-house.

### **Electronic Output**

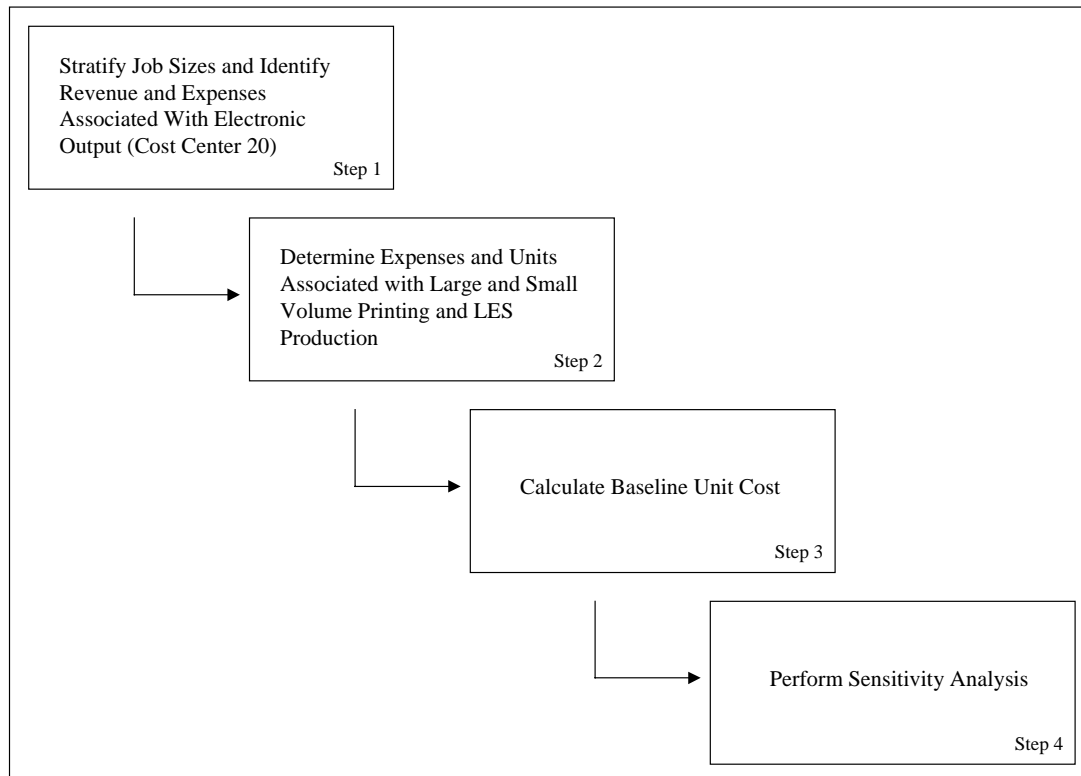
As discussed earlier, DAPS primary source of revenue (generated in-house) and expenses (including labor) is electronic output. The primary components of the Electronic Output



department are electronic printing (which includes printing from hard copy, disk, network, and mainframe) and Leave and Earnings Statement (LES) production. As discussed in the DAPS Financial Overview, Exhibit 4-7 showed that the Electronic Output department represented roughly two-thirds of DAPS revenues and expenses when pass-through activity was removed. For this reason, KPMG has chosen to address the “units of comparison” within the Electronic Output department first. These “units of comparison” are small volume printing, large volume (including mainframe) printing, and LES production.

KPMG used the process depicted in Exhibit 5-7 to develop a printing unit cost range for evaluating the Electronic Output units of comparison against other Government and commercial printing entities. Within this section, the term’s units and impressions are used interchangeably.

*Exhibit 5-7, Process for Calculating DAPS Printing Cost Ranges*



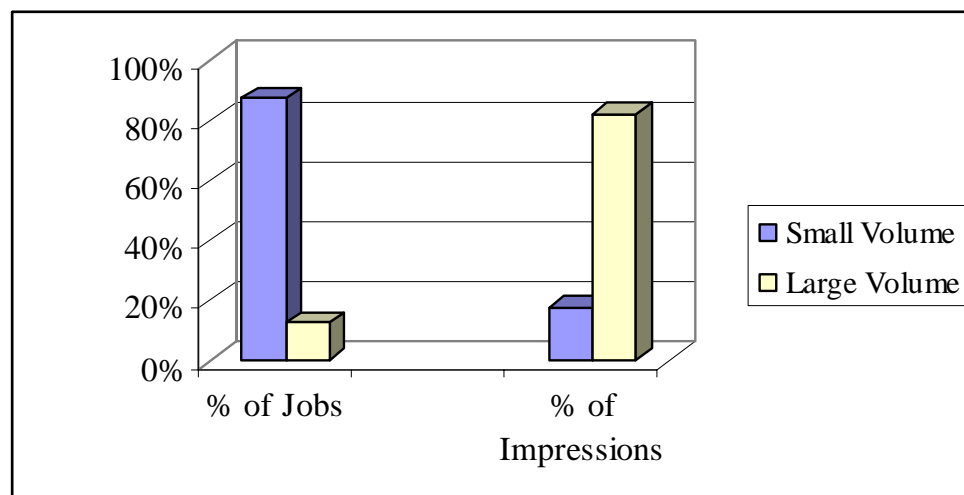
### **Large and Small Volume Printing**

**Step 1.** The first step in determining the unit costs for electronic printing was stratifying job sizes into categories. DAPS Pricing Manual lists different prices for high and low volume printing. Low volume printing is defined as printing for any customer that does not exceed 500,000 total impressions per month. High volume printing is defined as printing for any customer who exceeds 500,000 impressions per month, networked output, and all output for the Defense Finance and Accounting Service and Defense Information Systems Agency. Definitions for high and low volume printing do not specify individual job sizes,

however, and industry representatives indicated that they would have trouble providing a unit price based only on total monthly impressions. For this reason, KPMG attempted to stratify DAPS jobs by volume. After speaking with representatives from DAPS and industry, KPMG concluded that jobs under 10,000 impressions were generally considered to be small volume and jobs over 10,000 impressions were generally considered to be large volume.

Using the database of DAPS jobs completed during FY98, KPMG determined that small volume jobs represented roughly 245,000 of the 280,000 jobs in the database with large volume jobs making up the remaining 35,000 jobs. Despite constituting nearly 88% of DAPS printing jobs, these small volume jobs represented only 18% of DAPS total impressions. Exhibit 5-8 illustrates this point.

*Exhibit 5-8, DAPS Small and Large Volume Printing – Jobs versus Impressions*



This exhibit indicates that large volume printing, despite making up only 12% of DAPS jobs, represents the overwhelming majority of DAPS printing.

Using these job categorizations, KPMG began the process of determining the small and large volume printing unit cost by first determining the total costs associated with these jobs. As stated earlier, DAPS costs are not directly allocated to associated products / revenue processes and is instead allocated at the cost center level. In addition, DAPS accounting system does not provide enough detail to calculate a precise unit cost range for small and large volume jobs. For this reason, KPMG combined the large and small volume units of comparison to determine a single unit cost range.

One modification was made to DAPS financial data before performing the unit cost range calculations. DAPS allocates the overhead accrued from its local plants and Regional Business teams to cost centers based on labor hours. Overhead from the CST is allocated by cost center revenue. Prior to developing the unit cost range, CST overhead was reallocated based on labor hours to ensure consistent overhead allocation.

As described in Exhibit 5-7, after stratifying DAPS jobs, the next step KPMG took to calculate a unit cost range for large and small volume printing was determining the FY98 revenue and expenses associated with the Electronic Output cost center. The results of these calculations are provided in Exhibit 5-9. Additional detail on this and all subsequent calculations is provided in Appendix G.

*Exhibit 5-9, FY98 Revenue and Expenses for Electronic Output Cost Center*

Revenues	\$108,864,044
Expenses	\$109,971,401

Subtracting the expenses accrued in this cost center from revenue yields a \$1,107,357 or 1% loss. Not included in the electronic output cost center is the cost and revenue associated with the paper used for the printing (except for leave and earnings statements where paper is included). The paper cost center provided DAPS with a five million-dollar gain in FY98. During KPMG's commercial entity consultative interviews and site visits, industry representatives recommended that the price of paper not be included in questions requesting printed impression unit price since the price of paper can vary significantly over time.

**Step 2.** The next step KPMG used to determine unit cost was estimating the expenses associated with large and small volume output and total units associated with the Run Low Volume and Run High Volume revenue processes. The Run Low Volume and Run High Volume revenue processes represent the electronic output printing performed by DAPS.

For the expense calculation, KPMG made the assumption that revenue for the revenue processes not associated with impression output were equal to their costs. This assumption allowed KPMG to subtract the known revenue values from the total cost center cost to estimate the total cost for impression output. The results of these computations were as follows:

Expense Associated with Large and Small Volume Output: \$105,846,560

A sensitivity analysis is provided later to describe the impact of deviations from the subtracted revenue values for cases where cost and revenue for these revenue processes are not equal. KPMG next calculated the total impressions for the Run Low and High Volume revenue processes provided in DAPS FY98 Financial Management Summary.

Total Impressions in Run Low and High Volume Revenue Processes: 4,159,418,071

For certain specialty jobs, such as jobs requiring spot color or binding that can be performed by the printing machine, DAPS will charge the customer for additional printing units rather than assess an added charge in another revenue process. The following examples are quoted from DAPS FY98 Pricing Manual:

- “Runs with tape bind will be billed at 1.2x the unit rate”
- “Runs with on-line perfect bind will be billed at 1.4x the unit rate”
- “Runs of classified work will be billed at 1.2x the unit rate”
- “Runs involving off-line machine collation will be billed at 1.2x the unit rate”
- “Runs involving off-line machine collation will be billed at 1.2x the unit rate”
- “Multiple color jobs (spot color) will be billed as an additional run unit for each color”

These added unit charges made it impossible, in the timeframe allocated for this study, to accurately determine the total number of impressions produced by DAPS. However, KPMG has calculated an average impression cost using the total impressions listed previously and a sensitivity analysis is performed later to determine the impact of reducing the total impression units.

**Step 3.** Based on the total impressions associated with run low and run high volume output stated previously, KPMG determined the baseline unit cost for DAPS large and small volume printing to be \$.0254 per impression.

**Step 4.** The last step in establishing a unit cost range was performing a sensitivity analysis in which the revenue that was subtracted from the total Electronic Output cost was varied and the total impression volume was reduced. As noted in Step 2, the total impression volume is known to be overstated since specialty jobs receive increased unit charges per impression. The following scenarios were used:

Scenario 1: Assume duplicate original/proof and CONUS LES production revenue processes were operating at a 25% gain.

Result: \$.0257 per impression

Scenario 2: Assume duplicate original/proof and CONUS LES production revenue processes were operating at a 25% loss.

Result: \$.0252 per impression

Scenario 3: Assume that the total number of units is reduced by 10% and the duplicate original/proof and CONUS LES production revenue processes operate at a 25% gain.

Result: \$.0286 per impression

Scenario 4: Assume that the total number of units is reduced by 10% and the duplicate original/proof and CONUS LES production revenue processes operate at a 25% loss.

Result: \$.0280 per impression

The results of the sensitivity analysis provide a range of DAPS cost per printed impression of \$.0252 to \$.0286.

**LES Production Unit Cost.** The fact that LES production represents less than four percent of this cost center makes the allocation of expenses problematic. For this reason, KPMG has determined a range for LES units assuming a 25% gain or loss on the reported revenue. Based on this assumption the unit costs are provided in Exhibit 5-10.

*Exhibit 5-10, Unit Cost Estimate for Leave and Earnings Statements*

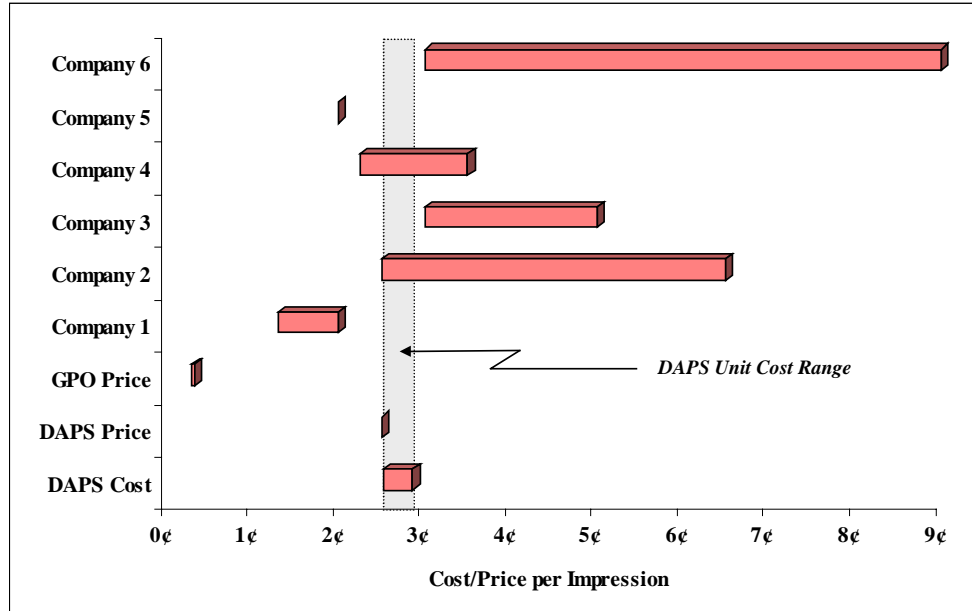
Cost Assuming Revenue Equals Expense	
Cost	\$2,967,340
Total Units	31,235,174
Unit Cost	\$0.0950
Cost Assuming 25% Gain	
Cost	\$2,225,505
Total Units	31,235,174
Unit Cost	\$0.0712
Cost Assuming 25% Loss	
Cost	\$3,709,175
Total Units	31,235,174
Unit Cost	\$0.1187

Assuming a possible 25% gain or loss in leave and earnings statement production, the possible range for unit costs is from \$0.071 to \$0.119 per unit. Survey respondents provided a low response of \$.0145 with the remaining responses yielding a range of \$.12 to \$.18 per LES. Since LES production represents less than 4% of the Electronic Output cost center, these cost differences did not impact the determination of whether the Electronic Output function is appropriate for transfer.

### **Comparison of DAPS Costs to Government and Commercial Entity Prices for Small and Large Volume Printing**

Using the unit cost range derived in the previous sections and the results of the surveys submitted by GPO and commercial entities, KPMG developed the following exhibits to graphically display the results of the survey for small and large volume electronic output. The matrix containing the numeric responses to the survey is included in Appendix G. Exhibit 5-11 compares DAPS per impression unit cost range and unit price with the small volume per impression price ranges submitted by the survey participants.

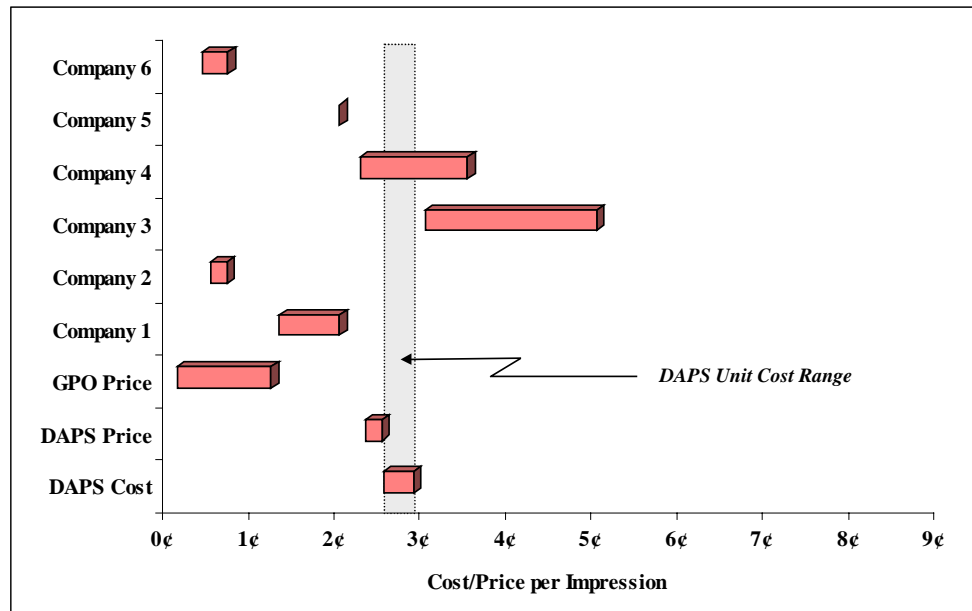
***Exhibit 5-11, Comparison of DAPS per Impression Unit Cost Range and Price with Other Entities' Small Volume Prices \****



*\* Represents 18% of DAPS Total Impressions*

Exhibit 5-12 compares DAPS per impression unit cost range and unit price range with the large volume (including mainframe output) price ranges submitted by the survey participants.

***Exhibit 5-12, Comparison of DAPS per Impression Unit Cost Range and Prices with Other Entities' Large Volume (Including Mainframe Output) Prices \****



*\* Represents 82% of DAPS Total Impressions*

These exhibits illustrate that DAPS unit cost range is competitive with, and in several cases is lower than, other entities in small volume output. However, in large volume output, which represents over 80% of DAPS total impressions, most of the survey participants provided prices which were well below DAPS unit cost range. The survey participants cited centralized production on optimized equipment as the key element to providing lower prices for large volume printing.

In the course of evaluating the survey responses, KPMG attempted to evaluate the validity of the prices provided by the survey respondents. This was difficult since most of the industry respondents were reluctant to provide actual contracts or invoices (even with customer names or other sensitive data deleted). However, one of the commercial respondents, whose price range in both small and large volume printing was lower than DAPS, was able to provide their contract with the General Services Administration for document production services (production equipment, labor, and supplies were all included) which confirmed a unit cost range below that of DAPS.

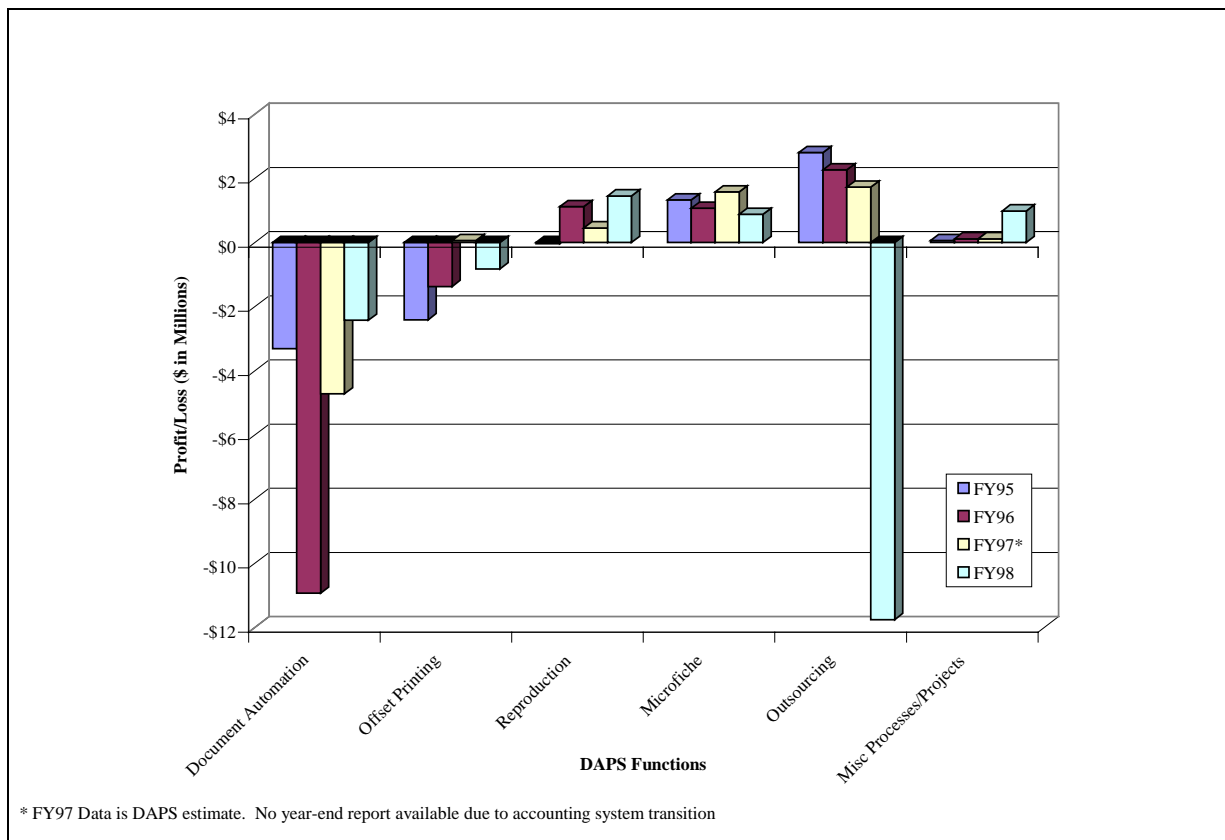
Based on the data provided by industry through the private / public entity survey as well as on-site interviews with several of the respondents and the three step analysis process described at the beginning of this section, KPMG concludes that the Electronic Output function is appropriate for transfer.

### **Remaining DAPS Functions**

The remainder of this section will discuss the appropriateness of transfer of DAPS remaining functions; Outsourcing, Miscellaneous Processes and Projects, Reproduction, Document Automation, Microfiche, and Offset Duplicating / Printing.

Since Electronic Output represents nearly two-thirds of DAPS in-house business and has been determined to be appropriate for transfer, DAPS would have to dramatically transform operations to continue performing only these remaining six functions. DAPS Financial Management Summary for FY98 indicates that these six functions suffered a loss of over \$11 Million in FY98. Even after reallocating the CST overhead costs by labor expenses versus revenue (which served to transfer additional costs into the Electronic Output department), the loss for the remaining six functions was still over \$9 Million which represents a nearly 13.5% loss for those departments. This is consistent with the trend in FY95 through FY97 where the six functions (excluding gains from Electronic Output) suffered losses of \$1.6 Million, \$7.8 Million, and \$0.8 Million respectively. Results for each Department for FY95 through FY98 are provided in Exhibit 5-13.

*Exhibit 5-13, FY95 through FY98 Profit/Loss for DAPS Departments (Excluding Electronic Output)*



As stated earlier in this section, KPMG's interviews with industry entities indicate that all of DAPS non-electronic output functions could be performed by other entities. However, industry had difficulty responding to the questions in the public / private entity survey pertaining to the non-electronic output functions due to the specialized nature of those functions and industry's movement toward value-added services (versus specific products) for these functions. For this reason, KPMG received few numeric responses to the non-electronic output survey questions to compare to DAPS although nearly all of the respondents indicated that they do perform most or all of the functions.

Due to the apparent unprofitability of these functions, the ability of industry to perform all of these functions, and since DAPS in-house revenue would be reduced to roughly \$70 Million (spread over 300+ sites) without Electronic Output, KPMG believes these functions are all appropriate for transfer to another entity.

Calculations of DAPS unit cost ranges for the units of comparison in each function and matrices containing comparisons of DAPS unit cost ranges with the prices supplied by industry are included in Appendix G.